

**St. Johns Public Schools
St. Johns, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

St. Johns Public Schools

St. Johns, Michigan

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June 30, 2008

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St. Johns Public Schools

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
St. Johns Public Schools
St. Johns, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of St. Johns Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2008, on our consideration of St. Johns Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise St. Johns Public Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 30, 2008

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

As management of the St. Johns Public Schools, we offer readers of the St. Johns Public Schools' financial statements this narrative overview and analysis of the financial activities of the St. Johns Public Schools for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the St. Johns Public Schools exceeded its liabilities at the close of the most recent fiscal year by \$13,712,622 (net assets).
- The school district's total net assets increased by \$2,539,789, as the result of current year activity.
- As of the close of the current fiscal year, the St. Johns Public Schools' governmental funds reported combined ending fund balances of approximately \$4,158,416, an increase of \$567,175 in comparison with the prior year adjusted combined fund balances.
- At the end of the current fiscal year, unreserved and undesignated fund balance for the general fund was \$2,144,876, or 8.2 percent of total general fund expenditures and Other Financing Uses.
- The St. Johns Public Schools' total long-term debt decreased by \$3,334,184 during the current fiscal year. The major factors in the decrease are a refunding of a portion of the bonded long term debt, payments made on the debt bonds and payments made to the Michigan School Bond Loan Program.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the St. Johns Public Schools' basic financial statements. The St. Johns Public Schools' basic financial statements are comprised of three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *district-wide financial statements* are designed to provide readers with a broad overview of the St. Johns Public Schools' finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the St. Johns Public Schools' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the St. Johns Public Schools is improving.

The *statement of activities* presents information showing how the school district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The district-wide financial statements can be found on pages 1 and 2 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The St. Johns Public Schools, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the St. Johns Public Schools can be divided into two categories: governmental funds and fiduciary funds.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the district-wide financial statements. However, unlike the district-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a school district's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the district-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the district-wide financial statements. By doing so, readers may better understand the long-term impact of the school district's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The general fund is considered to be the school district's only major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* located in the "Other Supplementary Information" section of the report.

The St. Johns Public Schools adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the school district. Fiduciary funds are *not* reflected in the district-wide financial statement because the resources of those funds are *not* available to support the St. Johns Public Schools' own programs.

The basic fiduciary fund financial statements can be found on pages 7 and 8 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 9 through 24 of the report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a school district's financial position. In the case of the St. Johns Public Schools, assets exceeded liabilities by \$13,712,622 at the close of the most recent fiscal year. Following is a summary of Net Assets statement for St. Johns Public Schools:

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

Summary of Net Assets:

The following table summarizes the districts net assets for the fiscal years ended June 30, 2008, and 2007:

Net Assets Summary		Governmental Activities	
		<u>June 30, 2008</u>	<u>June 30, 2007</u>
Assets			
Current and other assets		\$ 10,632,215	\$ 9,891,771
Capital assets		63,281,105	63,235,655
Less: accumulated depreciation		<u>(19,008,786)</u>	<u>(17,564,999)</u>
Capital assets, net book value		<u>44,272,319</u>	<u>45,670,656</u>
Total assets		<u>\$ 54,904,534</u>	<u>\$ 55,562,427</u>
Liabilities			
Current liabilities		\$ 9,412,316	\$ 9,121,176
Non-current liabilities		<u>31,779,596</u>	<u>35,268,418</u>
Total liabilities		41,191,912	44,389,594
Net Assets			
Invested in capital assets, net of related debt		11,128,232	9,867,351
Restricted for debt service		662,205	527,334
Unrestricted		<u>1,922,185</u>	<u>778,148</u>
Total net assets		<u>13,712,622</u>	<u>11,172,833</u>
Total Liabilities and Net Assets		<u>\$ 54,904,534</u>	<u>\$ 55,562,427</u>

By far the largest portion of the St. Johns Public Schools' net assets (81.2 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The St. Johns Public Schools uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the St. Johns Public Schools' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the St. Johns Public Schools' net assets (4.8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (14 percent) may be used to meet the district's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the St. Johns Public Schools is able to report a positive balance in net assets for the school district.

The value of the school district's net assets increased by \$2,539,789 for fiscal year 2007-08. The increase represents the degree to which increases in Current Assets have grown more than the increases in the actual Current Liabilities.

St. Johns Public Schools**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008****Results of Operations:**

District-wide operating results for the fiscal years ended June 30, 2008, and 2007:

		Governmental Activities	
Revenues:		<u>June 30, 2008</u>	<u>June 30, 2007</u>
General Revenues:			
Property taxes		\$ 6,942,686	\$ 6,481,359
State of Michigan unrestricted foundation aid		20,721,418	20,668,456
County special education allocation		176,753	177,990
County vocational education allocation		568,106	537,554
Other general revenues		<u>623,114</u>	<u>751,920</u>
Total General Revenues		29,032,077	28,617,279
Operating Grants:			
Federal		792,252	844,015
State of Michigan		<u>1,061,798</u>	<u>1,443,296</u>
Total Operating Grants		1,854,050	2,287,311
Capital Grants:			
Federal		-	5,199
State of Michigan		<u>384</u>	<u>107</u>
Total Capital Grants		384	5,306
Charges for Services:			
Food service activities		799,667	800,606
Athletic activities		192,263	202,666
Community service activities		124,656	124,540
Other local		<u>510,709</u>	<u>490,392</u>
Total Charges for Services		<u>1,627,295</u>	<u>1,618,204</u>
Total Revenues		32,513,806	32,528,100
Expenses:			
Instruction and instructional support		15,738,669	18,144,741
Support services		9,152,812	8,780,464
Food service activities		1,271,202	1,123,914
Athletic activities		425,392	445,877
Interest on long-term debt		1,942,155	2,073,156
Depreciation (unallocated)		<u>1,443,787</u>	<u>1,461,678</u>
Total Expenses		<u>29,974,017</u>	<u>32,029,830</u>
Net Revenues/(Expenses)		<u>\$ 2,539,789</u>	<u>\$ 498,270</u>

Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008

- The level of total revenues received by St. Johns Community Schools was basically static when compared to FY 2006-07. Debt Service Funds increased approximately \$250,000 (due to increased property tax revenue) while the General Fund decreased by approximately \$290,000 (see below for explanation of GF reduction in revenues).
- On the expenditure the decrease in expenditures is almost totally due to decreases within the General fund (as explained below).

Financial Analysis of the School District's Funds

As noted earlier, the St. Johns Public Schools uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the St. Johns Public Schools' *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the St. Johns Public Schools' financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a school district's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the St. Johns Public Schools' governmental funds reported combined ending fund balances of \$4,158,416, an increase of \$567,175 in comparison with the prior year adjusted ending fund balances. Approximately 52% of this total amount (\$2,144,676) constitutes *unreserved general fund balance*, which is available for spending on operations at the school district's discretion. The remainder of fund balance is *designated or reserved* to indicate that it is not available for new spending because it has already been committed to: 1) cover purchase orders of the prior period, commitment of FY 2007-08 budget dollars for technology purchases that did not occur prior to June 30, 2008, the set-aside of fund balance dollars for the potential purchase of a used bus during FY 2008-09 and to cover an anticipated FY08-09 shortfall in the budget as passed (\$271,482); 2) pay debt service (\$929,332); and 3) pay for the cost of inventory and prepaids (\$35,181). Additional fund balance amounts have accumulated in other funds, implying a designation for the respective funds' purposes, such as 1) Food Service Operations (\$254,429); 2) Athletic Operations (\$29,253); and 3) Capital Projects (\$494,063).

The general fund is the chief operating fund of the St. Johns Public Schools. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,144,676, while total fund balance was \$2,407,632. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and Other Financing Uses. Unreserved fund balance represents 8.2 percent of total general fund expenditures and Other Financing Uses, while total fund balance represents 9.2 percent of that same amount.

- Total revenues decreased approximately \$290,317 during the year. The major reasons for the decrease in revenues was due to the loss of almost 30 students and the transfer of the Turning Point program from St. Johns Public Schools to Clinton County RESA.
- The fund balance of the St. Johns Public Schools' general fund increased by \$497,851 from the ending fund balance reported in last year's audit due to the current fiscal year's on-going operations. The district experienced a lower amount of General Fund Expenditures primarily due to a combination of the savings from reducing expenditures for the purchase of busses, recognition of full year savings from switch in health insurance plan, savings experienced in FY 2007-08 from the offering of an early retirement incentive program and the contracting of several Administrator/Support positions resulting in savings if the positions had been filled with SJPS employees.

The debt service funds have a total fund balance of \$929,332, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$98,104.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the Board of Education approve an original budget for the upcoming year prior to the start of the fiscal year on July 1.

St. Johns Public Schools

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2008

St. Johns Public Schools amends its budget twice each year. For FY2007-08 the budget was amended in February 2008 and June 2008. The June 2008 budget amendment was the final budget for the fiscal year.

Changes in the General Fund Budget from Original, Final Budget, and Actual:

	Original Budget (Adopted June 2007)	Final Budget (Adopted June 2008)	Actual Year Ended June 30, 2008
Total Revenues	\$ 26,100,400	\$ 26,561,426	\$ 26,699,960
Total Expenditures	\$ 26,176,288	\$ 26,562,400	\$ 26,202,109
FY 2007-08 General Fund operations result's impact on Net Assets:			\$ 497,851

Revenues:

The district's actual revenues were \$599,560 higher than the original budget projections.

Expenditures:

The district's actual expenditures were \$25,821 lower than the original budget projections.

Debt Administration

At the end of the current fiscal year, St. Johns Public Schools had total bonded debt outstanding of \$29,875,549. The remainder of the District's debt is made of capitalized bond items, and installment and Michigan School Bond Loans.

St. Johns Public Schools' total debt, including amounts owed to employees for compensated absences, decreased by \$3,334,184 (approximately 8.8 percent) during the current fiscal year.

The school district continued to make payments to the Michigan School Bond Loan Fund program.

Economic Factors and Next Year's Budgets

- The State of Michigan annually establishes a foundation allowance for each enrolled student. The State passed an appropriation for FY2008-2009 with a per pupil increase of \$112/FTE.
- Health insurance costs seemed to have stabilized for many of our employees for FY2008-2009. District employees continue to share in the cost of the health insurance package. The cost of providing health insurance to the school district's employees still represents a significant expenditure to the school district.
- The retirement rate established by the State of Michigan is slightly less than the rate charged in FY 2007-2008.
- The school district anticipates a student blended count decline of 15 students for the 2008-2009 fiscal year. The FY2008-2009 budget was built using this assumption. Local economic factors and the overall economy of the State will impact actual student enrollment.
- The school district, for the eleventh consecutive year, will need to borrow money to meet cash flow needs during the early portion of the fiscal year. The amount to be borrowed is \$3.5 million. The funds are used to meet payroll costs and to pay vendors for products and services while we wait for state funds (the fiscal year starts on July 1st and the first state funds are usually received by the District towards the end of October). It is estimated the borrowing costs will be about \$80,000.

**Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2008**

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, St. Johns Public Schools, 501 W. Sickles, St. Johns, Michigan 48879.

BASIC FINANCIAL STATEMENTS

St. Johns Public Schools

STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 6,095,086
Investments	483,861
Accounts receivable	4,732
Due from other governmental units	4,013,355
Inventories	23,193
Prepaid expenses	<u>11,988</u>
Total current assets	10,632,215
Noncurrent assets	
Capital assets not being depreciated	802,535
Capital assets, net of accumulated depreciation	<u>43,469,784</u>
Total noncurrent assets	<u>44,272,319</u>
TOTAL ASSETS	54,904,534
LIABILITIES	
Current liabilities	
Accounts payable	317,178
Accrued payroll	1,528,588
Accrued interest payable	267,127
Other accrued liabilities	968,787
Unearned revenue	48,388
Short-term notes payable	3,610,858
Current portion of compensated absences and termination benefits	766,060
Current portion of long-term debt	<u>1,905,330</u>
Total current liabilities	9,412,316
Noncurrent liabilities	
Noncurrent portion of compensated absences and termination benefits	540,839
Noncurrent portion of long-term debt	<u>31,238,757</u>
Total noncurrent liabilities	<u>31,779,596</u>
TOTAL LIABILITIES	<u>41,191,912</u>
NET ASSETS	
Invested in capital assets, net of related debt	11,128,232
Restricted for debt service	662,205
Unrestricted	<u>1,922,185</u>
TOTAL NET ASSETS	<u>\$ 13,712,622</u>

See accompanying notes to financial statements.

St. Johns Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Governmental Activities	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Functions/Programs					
Instruction	\$ 15,301,516	\$ 330,787	\$ 1,452,719	\$ -	\$ (13,518,010)
Supporting services	9,152,812	179,922	726	-	(8,972,164)
Community services	437,153	124,656	-	384	(312,113)
Food services	1,271,202	799,667	400,605	-	(70,930)
Athletics	425,392	192,263	-	-	(233,129)
Interest on long-term debt	1,942,155	-	-	-	(1,942,155)
Unallocated depreciation	1,443,787	-	-	-	(1,443,787)
TOTAL EXPENSES	\$ 29,974,017	\$ 1,627,295	\$ 1,854,050	\$ 384	(26,492,288)
General Revenues					
					6,942,686
					20,721,418
					176,753
					568,106
					137,953
					177,775
					307,386
					29,032,077
					2,539,789
					11,172,833
					\$ 13,712,622

See accompanying notes to financial statements

St. Johns Public Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 4,551,228	\$ 1,543,858	\$ 6,095,086
Investments	-	483,861	483,861
Accounts receivable	4,712	20	4,732
Due from other governmental units	4,013,355	-	4,013,355
Due from other funds	263,624	110,756	374,380
Inventories	7,186	16,007	23,193
Prepays	11,988	-	11,988
TOTAL ASSETS	\$ 8,852,093	\$ 2,154,502	\$ 11,006,595
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 317,173	\$ 5	\$ 317,178
Accrued payroll	1,514,168	14,420	1,528,588
Other accrued liabilities	964,732	4,055	968,787
Due to other funds	1,941	372,439	374,380
Deferred revenue	35,589	12,799	48,388
Short-term notes payable	3,610,858	-	3,610,858
TOTAL LIABILITIES	6,444,461	403,718	6,848,179
FUND BALANCES			
Reserved for			
Inventories and prepaids	19,174	16,007	35,181
Debt service	-	929,332	929,332
Unreserved			
Designated for:			
Subsequent year's expenditures	243,782	27,700	271,482
Undesignated, reported in:			
General Fund	2,144,676	-	2,144,676
Special Revenue Funds	-	283,682	283,682
Capital Project Fund	-	494,063	494,063
TOTAL FUND BALANCES	2,407,632	1,750,784	4,158,416
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,852,093	\$ 2,154,502	\$ 11,006,595

See accompanying notes to financial statements.

St. Johns Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balance - governmental funds \$ 4,158,416

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 63,281,105	
Accumulated depreciation is	<u>(19,008,786)</u>	44,272,319

Governmental funds report the difference between the carrying amount of the defeased debt
and its reacquisition price when debt is first issued, whereas these amounts are deferred and
amortized in the Statement of Net Assets. These amounts consist of:

Unamortized defeased debt	(619,122)
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Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	32,524,965	
Accrued interest payable	267,127	
Vacation, severance, and retirement incentive payable	<u>1,306,899</u>	<u>(34,098,991)</u>

Net assets of governmental activities	<u>\$ 13,712,622</u>
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See accompanying notes to financial statements.

St. Johns Public Schools

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 3,510,677	\$ 5,413,241	\$ 8,923,918
State sources	21,727,461	55,755	21,783,216
Federal sources	447,402	344,850	792,252
TOTAL REVENUES	25,685,540	5,813,846	31,499,386
EXPENDITURES			
Current			
Instruction	16,008,477	-	16,008,477
Supporting services	9,124,820	-	9,124,820
Community services	437,153	-	437,153
Food service activities	-	1,269,314	1,269,314
Athletic activities	-	425,392	425,392
Debt service			
Principal retirement	40,624	2,952,179	2,992,803
Interest, fiscal and other charges	150,893	1,494,444	1,645,337
TOTAL EXPENDITURES	25,761,967	6,141,329	31,903,296
EXCESS OF REVENUES (UNDER) EXPENDITURES	(76,427)	(327,483)	(403,910)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	13,780,000	13,780,000
Bond premium	-	802,508	802,508
Transfers from other funds	-	1,096,807	1,096,807
County special education allocation	176,753	-	176,753
County vocational education allocation	568,106	-	568,106
County-wide career connection consortium	137,953	-	137,953
Other transactions	131,608	-	131,608
Payment to escrow agent	-	(14,395,310)	(14,395,310)
Bond issuance costs	-	(187,198)	(187,198)
Transfers to other funds	(396,807)	(700,000)	(1,096,807)
Other	(43,335)	-	(43,335)
TOTAL OTHER FINANCING SOURCES (USES)	574,278	396,807	971,085
NET CHANGE IN FUND BALANCES	497,851	69,324	567,175
Fund balances, beginning of year	1,909,781	1,681,460	3,591,241
Fund balances, end of year	<u>\$ 2,407,632</u>	<u>\$ 1,750,784</u>	<u>\$ 4,158,416</u>

See accompanying notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ 567,175

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 45,450	
Depreciation expense	(1,443,787)	
Excess of depreciation expense over capital outlay		(1,398,337)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of the difference between the carrying amount of defeased debt and its reacquisition price when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In the current year, these amounts consist of:

Bond premium	(750,833)	
Amortization of defeased debt	36,527	
Bond and loan principal retirement	17,309,950	
Bond and loan proceeds (including SBLF interest)	(13,936,426)	
Net effect of long-term debt activity		2,659,218

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	36,767	
Decrease in accrued vacation, severance, and retirement incentive pay	674,966	
		711,733

Change in net assets of governmental activities \$ 2,539,789

See accompanying notes to financial statements.

St. Johns Public Schools

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 31,844	\$ 356,762
Investments	96,080	-
TOTAL ASSETS	127,924	<u>\$ 356,762</u>
LIABILITIES		
Accounts payable	980	\$ -
Due to individuals		
High School	-	194,910
Middle School	-	81,266
Elementary Schools	-	79,083
Other	-	1,503
Deferred revenue	32,134	-
TOTAL LIABILITIES	<u>33,114</u>	<u>\$ 356,762</u>
NET ASSETS		
Held in trust for scholarships	80,845	
Held in trust for grants	13,965	
TOTAL NET ASSETS	<u>\$ 94,810</u>	

See accompanying notes to financial statements.

St. Johns Public Schools

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2008

	Private Purpose Trust Funds
ADDITIONS	
Investment earnings	
Interest	\$ 3,682
Contributions	<u>67,210</u>
Total additions	70,892
DEDUCTIONS	
Other supporting services	<u>55,558</u>
CHANGE IN NET ASSETS	15,334
Net assets - beginning of year	<u>79,476</u>
Net assets - end of year	<u>\$ 94,810</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of St. Johns Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of St. Johns Public Schools (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major fund and aggregated nonmajor funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

The major fund of the District is:

- a. **General Fund** - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide and fiduciary private purpose trust fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the fund level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplementary appropriations were made during the year with the last approved June 23, 2008.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking, savings, money market accounts, and pooled investment funds. Cash equivalents are recorded at cost, which approximates market value.

Investments consist of certificates of deposit with an original maturity of greater than 90 days. Certificates of deposit are recorded at cost, which approximates market value.

7. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve in the fund financial statements which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2008, to be paid in July and August 2008. Of the total amount of \$4,013,355 due from other governmental units, \$3,916,366 consists of State Aid and the remaining \$96,989 from other governmental grants.

10. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	10 - 50 years
Equipment and furniture	5 - 25 years
Vehicles	8 years
Other capital equipment	5 - 25 years

The District has no assets that would be classified as infrastructure assets.

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Deferred Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred. Other monies collected in advance, such as summer school, community education programs, and summer school lunch, recreational programs are also deferred.

13. Short-Term Note Obligations

Short-term debt is recognized as a liability of a governmental fund and is included on the balance sheet of the applicable fund. During the current year the District borrowed funds to meet short-term cash flow borrowing needs. The final payment is due and payable in August 2008 and anticipated State Aid is expected to be sufficient to cover this commitment.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Accrued Interest Payable

Accrued interest is presented as a current liability in the district-wide financial statements and is due within one year.

16. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

The District levies taxes of \$18 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$7 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

17. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average of pupil membership counts taken in September 2007 and February 2007. The average calculation was weighted 75% for the September 2007 count and 25% for the February 2007 count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

18. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are reported as deferred revenue.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

19. Interfund Transactions

Interfund transactions are reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are recorded when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

20. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

21. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1962, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, the carrying amount of the District's deposits was \$2,722,621 and the bank balance was \$2,814,216 of which \$863,736 was covered by Federal depository insurance. The balance of \$1,950,480 was uninsured and uncollateralized. The District had \$750 of cash on hand.

Investments

As of June 30, 2008, the carrying amounts and market values for each type of investment as reported in the cash, cash equivalents, and investments captions on the financial statements are as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity (years)</u>
Michigan Liquid Asset Fund Plus	<u>\$ 4,340,262</u>	<u>\$ 4,340,262</u>	Less than 12 Months Average

Credit risk

State law limits investments in certain types of investments to a prime or better rating issue by nationally recognized statistical rating organizations (NRSRO'S). As of June 30, 2008, the District's investment in the Michigan Liquid Asset Fund Plus was rated AAA by Standards and Poor's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by monitoring the weighted average maturity of its investment portfolio through its financial reports and investment authorizations.

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments of collateral securities that are in possession of an outside party by diversifying its investments by institution to ensure that potential losses on individual securities do not exceed the income generated by the remainder of the portfolio.

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

As of June 30, 2008, the District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 6,095,086	\$ 388,606	\$ 6,483,692
Investments	<u>483,861</u>	<u>96,080</u>	<u>579,941</u>
	<u>\$ 6,578,947</u>	<u>\$ 484,686</u>	<u>\$ 7,063,633</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2008, are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 263,624</u>
Due to Nonmajor governmental funds from:	
General Fund	\$ 1,941
Nonmajor governmental funds	<u>108,815</u>
	<u>\$ 110,756</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Nonmajor governmental funds from:	
General Fund	\$ 396,807
Nonmajor governmental funds	<u>700,000</u>
	<u>\$ 1,096,807</u>

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities				
Capital assets not being depreciated				
Land	\$ 802,535	\$ -	\$ -	\$ 802,535
Capital assets being depreciated				
Buildings and additions	55,584,854	-	-	55,584,854
Equipment and furniture	572,580	14,880	-	587,460
Vehicles	1,561,055	30,570	-	1,591,625
Other capital equipment	<u>4,714,631</u>	<u>-</u>	<u>-</u>	<u>4,714,631</u>
Subtotals	62,433,120	45,450	-0-	62,478,570
Less accumulated depreciation for:				
Buildings and additions	(12,896,416)	(1,104,595)	-	(14,001,011)
Equipment and furniture	(241,607)	(53,141)	-	(294,748)
Vehicles	(1,141,272)	(100,256)	-	(1,241,528)
Other capital equipment	<u>(3,285,704)</u>	<u>(185,795)</u>	<u>-</u>	<u>(3,471,499)</u>
Total accumulated depreciation	<u>(17,564,999)</u>	<u>(1,443,787)</u>	<u>-0-</u>	<u>(19,008,786)</u>
Net capital assets being depreciated	<u>44,868,121</u>	<u>(1,398,337)</u>	<u>-0-</u>	<u>43,469,784</u>
Capital assets, net	<u>\$45,670,656</u>	<u>\$(1,398,337)</u>	<u>\$ -0-</u>	<u>\$44,272,319</u>

Total depreciation expense of \$1,443,787 was not allocated to governmental functions. The expense appears on the statement of activities as "unallocated".

NOTE F: SHORT-TERM NOTES

On August 18, 2007, the District issued a short-term State School Aid Anticipation Note in the amount of \$3,500,000 for the purpose of funding operating expenditures until the 2008 State Aid payments resumed. This short-term note, which has a net outstanding balance of \$3,610,858 (principal and accrued-interest payable) at June 30, 2008, is reported in the General Fund under the caption short-term notes payable. The outstanding balance is due August 20, 2008.

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2008.

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
1995 School Building and Site General Obligation Bonds	\$ 1,500,000	\$ -	\$(1,500,000)	\$ -0-	\$ -
2003 Energy Conservation Bonds	795,000	-	(120,000)	675,000	125,000
1998 Refunding Bonds	26,225,000	-	(14,230,000)	11,995,000	-
2004 Refunding Bonds	3,200,000	-	(45,000)	3,155,000	1,545,000
2008 Refunding Bonds	-	13,780,000	-	13,780,000	-
1998 Durant Resolution Bonds	270,549	-	-	270,549	155,823
Capitalized bond items	-	750,833	(68,258)	682,575	68,258
Installment Loans	209,040	-	(30,150)	178,890	31,887
Lease Purchase Agreement	45,756	-	(10,474)	35,282	11,093
Michigan School Bond Loans					
Principal and interest	3,653,144	156,426	(1,374,326)	2,435,244	-
Severance pay	521,637	23,455	-	545,092	54,509
Vacation pay	48,294	7,546	-	55,840	5,584
Early retirement incentive	1,411,934	-	(705,967)	705,967	705,967
	37,880,354	14,718,260	(18,084,175)	34,514,439	2,703,121
Less deferred amounts:					
On refunding	(95,184)	-	(31,731)	(63,453)	(31,731)
Total	\$37,785,170	\$14,718,260	\$(18,052,444)	\$34,450,986	\$ 2,671,390

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds - The District has issued bonds to finance the acquisition, new construction, and remodeling of existing school facilities. The following summarizes significant details of the bonds payable outstanding at June 30, 2008:

\$26,905,000 1998 Refunding Bonds dated June 15, 1998, due in annual installments ranging from \$1,680,000 to \$1,745,000 through May 1, 2025, with interest ranging from 4.70 to 5.10 percent, payable semi-annually.	\$11,995,000
\$1,250,000 2003 Energy Conservation Improvement Bonds dated September 30, 2003, due in annual installments ranging from \$125,000 to \$145,000 through May 1, 2013, with interest ranging from 3.00 to 4.10 percent, payable semi-annually.	675,000
\$3,355,000 2004 Refunding Bonds dated February 18, 2004, due in annual installments ranging from \$1,545,000 to \$1,610,000 through May 1, 2010, with interest ranging from 2.75 to 3.00 percent, payable semi-annually.	3,155,000
\$13,780,000 2008 Refunding Bonds dated February 19, 2008, due in annual installments ranging from \$150,000 to \$745,000 through May 1, 2018, with interest ranging from 3.00 to 5.00 percent, payable semi-annually.	\$13,780,000
	<u>\$29,605,000</u>

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: LONG-TERM DEBT - CONTINUED

Resolution Bonds

\$458,197 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$26,713 to \$155,822, with interest of 4.7615353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment until May 15, 2009.

\$ 270,549

Installment Loan

\$420,000 Installment Purchase Agreement dated July 16, 1998, due in semi-annual installments ranging from \$15,720 to \$20,226 through May 15, 2013, with interest at 5.68 percent, payable semi-annually.

\$ 178,890

Lease Purchase Agreement

\$58,932 Lease Purchase Agreement dated April 25, 2007, due in annual installments ranging from \$1 to \$12,441 through April 25, 2012, with interest at 6.75 percent, payable monthly.

\$ 35,282

Michigan School Bond Loans

The School District has borrowed on various occasions from the Michigan School Bond Loan Fund. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 4.500 to 4.875 percent.

The balances at June 30, 2008, are as follows:

Loan balance	\$ 2,320,631
Interest balance	<u>114,613</u>
	<u>\$ 2,435,244</u>

Annual Requirements for Bonded Debt and Installment Loans

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 155,823	\$ 60,364	\$ 1,670,000	\$ 1,266,243
2010	26,713	5,463	1,890,000	1,220,005
2011	27,985	4,191	1,875,000	1,162,655
2012	29,316	2,858	1,855,000	1,101,110
2013	30,712	1,462	1,850,000	1,035,485
2014-2018	-	-	8,470,000	4,180,925
2019-2023	-	-	8,625,000	2,163,486
2024-2025	-	-	<u>3,370,000</u>	<u>257,550</u>
	<u>\$ 270,549</u>	<u>\$ 74,338</u>	<u>\$29,605,000</u>	<u>\$12,387,459</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: LONG-TERM DEBT - CONTINUEDAnnual Requirements for Bonded Debt and Installment Loans - continued

<u>Year Ending June 30,</u>	<u>Installment Loans</u>		<u>Lease Purchase Agreement</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 31,887	\$ 9,715	\$ 11,093	\$ 1,976
2010	33,723	7,878	11,747	1,315
2011	35,666	5,935	12,442	615
2012	37,721	3,880	-	-
2013	39,893	1,707	-	-
	<u>\$ 178,890</u>	<u>\$ 29,115</u>	<u>\$ 35,282</u>	<u>\$ 3,906</u>

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on St. Johns Public Schools in the future.

Advance Refunding - Current

On February 19, 2008, the District defeased the portion of the General Obligation 1998 Refunding Bonds, which are due and payable May 1, 2009, through May 1, 2018. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2008 Refunding Bonds in the amount of \$13,780,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2008, bonds due and payable May 1, 2009, through May 1, 2018, for the General Obligation 1998 Refunding Bonds in the amount of \$14,135,000 are considered defeased. The amount transferred to the escrow agent exceeded the amount defeased by \$344,877. This amount is being netted against the new debt and amortized over the life of the new debt, which is shorter than the life of the refunded debt.

As a result of the advance refunding, the District decreased its total debt service requirements by \$2,869,795, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,263,044.

Advance Refunding - Prior

On February 18, 2004, the District defeased the portion of the 1995 School Building and Site Bonds, which are due and payable May 1, 2009, through May 1, 2010. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 2004 Refunding Bonds in the amount of \$3,355,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2008, bonds due and payable May 1, 2009, through May 1, 2010, for the 1995 School Building and Site Bonds in the amount of \$3,100,000 are considered defeased. The amount transferred to the escrow agent exceeded the amount defeased by \$222,098. This amount is being netted against the new debt and amortized over the life of the new debt, which is shorter than the life of the refunded debt.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: LONG-TERM DEBT - CONTINUED**Advance Refunding - Prior - Continued**

On June 15, 1998, the District defeased the portion of the 1995 School Building and Site Bonds which are due and payable May 1, 2011, through May 1, 2025. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The District issued General Obligation 1998 Refunding Bonds in the amount of \$26,905,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2008, bonds due and payable May 1, 2011, through May 1, 2025, for the 1995 School Building and Site Bonds in the amount of \$25,225,000 are considered defeased.

Severance Pay

In recognition of services to the District, a severance payment is made to eligible employees with at least ten (10) years of service according to their respective employment contracts.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the terminal and sick leave liabilities. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The sick leave amounts for employees who currently are not vested are calculated by using total unused sick leave amounts at June 30, 2008, for all nonvested employees. The terminal leave amounts for employees who currently are not vested are calculated by taking the sum of nonvested employees' salaries for the year ended June 30, 2008, and multiplying it by the applicable years of service percentage. Both of these amounts are multiplied by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2008, which has been recorded in the District-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 340,445	\$ 165,911	\$ 506,356
Payroll taxes	<u>26,044</u>	<u>12,692</u>	<u>38,736</u>
	<u>\$ 366,489</u>	<u>\$ 178,603</u>	<u>\$ 545,092</u>

Vacation Payable

In recognition of services to the District, an accumulated unused vacation days' payment will be made upon termination to eligible employees according to past District practice. This payment will be paid on all unused vacation days at the employee's rate of pay at time of termination.

The vacation liabilities including the related payroll taxes which has been recorded in the District-wide financial statements is \$55,840.

Early Retirement Incentive

The District has entered into voluntary termination benefit arrangements with certain employees. The original agreement provides for a total payment to each individual of approximately \$50,000. This amount will be paid out over two equal payments. There are currently approximately 25 employees entitled to future payments. The liability has been recorded at the face amount, as the discounted present value approximates the face amount of the liability.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2007, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2008, was \$14,707,236 of which \$12,520,356 was for members who have elected the MIP option; the District's total payroll was \$15,194,210.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service, and performed service credit in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPERS also provides death and disability benefits and health and medical, dental, vision and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2007, to September 30, 2007, the District was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. For the period of October 1, 2007, to June 30, 2008, the District is required by State statute to contribute 16.72% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2008, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>	<u>Total</u> <u>Contributions</u>
2008	\$ 486,974	\$ 2,489,886	\$ 2,976,860
2007	513,395	2,753,005	3,266,400
2006	514,792	2,558,811	3,073,603

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE H: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP</u> <u>Contributions</u>	<u>District</u> <u>Contributions</u>
2008	4.0 %	16.9 %
2007	4.0	17.5
2006	4.0	16.0

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the district-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following is the net asset restriction as of June 30, 2008:

Governmental activities	
Restricted for debt service	\$ <u>662,205</u>

NOTE J: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2008:

General Fund	
Reserved for inventories and prepaids	\$ <u>19,174</u>
Nonmajor governmental funds	
Reserved for inventories and prepaids	\$ 16,007
Reserved for debt service	<u>929,332</u>
	\$ <u>945,339</u>
General Fund	
Designated for subsequent year's expenditures	\$ <u>243,782</u>
Nonmajor governmental funds	
Designated for subsequent year's expenditures	\$ <u>27,700</u>

NOTE K: FLEXIBLE BENEFITS PLAN

In June 1996 the District approved by Board action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all employees, permits them to receive cash in lieu of medical benefits. The Plan provides employees with the opportunity to choose among benefits consisting of cash or benefits.

The Plan is administered by St. Johns Public Schools.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE L: RISK MANAGEMENT

The District is exposed to various risks of loss including losses related to the Districts' storage tanks, boilers, and machinery for which the District carries commercial insurance.

The District also participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, equipment breakdown (Boiler and Machinery), fleet, liability, in-land marine, crime, data processing, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTE M: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. St. Johns Public Schools, a nonplaintiff District, was awarded \$916,394 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE N: SUBSEQUENT EVENT

In August 2008, the District received funds from the Michigan Municipal Bond Authority short-term cash flow borrowing program. The loan in the amount of \$3,500,000 was for the purpose of funding operating expenditures until the fiscal year 2009 State Aid payments resume. Future anticipated State Aid and other local funds are expected to be sufficient to cover this commitment.

St. Johns Public Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the body of the budgetary comparison schedules, the District's budgeted expenditures in the General Fund have been shown at the functional classification level but were adopted at the total expenditures level. Budgeted expenditures for nonmajor Special Revenue funds have not been presented.

During the year ended June 30, 2008, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Nonmajor governmental funds			
Food Service Fund	\$ 1,160,000	\$ 1,269,314	\$ 109,314

REQUIRED SUPPLEMENTARY INFORMATION

St. Johns Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 3,224,300	\$ 3,443,407	\$ 3,510,677	\$ 67,270
State sources	21,354,800	21,716,527	21,727,461	10,934
Federal sources	435,700	425,500	447,402	21,902
TOTAL REVENUES	25,014,800	25,585,434	25,685,540	100,106
EXPENDITURES				
Current				
Instruction				
Basic needs	12,150,574	12,331,793	12,251,303	80,490
Added needs	3,724,543	3,733,652	3,757,174	(23,522)
Total instruction	15,875,117	16,065,445	16,008,477	56,968
Supporting services				
Pupil	818,900	747,485	702,774	44,711
Instructional staff	329,593	357,095	372,475	(15,380)
General administration	611,300	702,934	683,596	19,338
School administration	1,733,968	1,738,888	1,747,568	(8,680)
Business	525,600	296,649	261,187	35,462
Central	48,700	50,435	46,905	3,530
Professional development	30,000	80,000	32,070	47,930
Technology	828,120	849,491	714,291	135,200
Pupil transportation	1,293,400	1,450,168	1,410,277	39,891
Operations and maintenance	3,032,000	3,143,330	3,153,677	(10,347)
Total supporting services	9,251,581	9,416,475	9,124,820	291,655
Community services				
Care of children	488,990	450,440	437,153	13,287
Debt service				
Principal retirement	42,000	30,200	40,624	(10,424)
Interest, fiscal, and other charges	145,000	148,300	150,893	(2,593)
Total debt service	187,000	178,500	191,517	(13,017)
TOTAL EXPENDITURES	25,802,688	26,110,860	25,761,967	348,893
EXCESS OF REVENUES (UNDER) EXPENDITURES	(787,888)	(525,426)	(76,427)	448,999

St. Johns Public Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
OTHER FINANCING SOURCES (USES)				
County special education allocation	\$ 178,000	\$ 176,754	\$ 176,753	\$ (1)
County vocational education allocation	569,000	557,439	568,106	10,667
County-wide career connection consortium	-	-	137,953	137,953
Other revenues	338,600	241,799	131,608	(110,191)
Transfers to other funds	(373,600)	(408,040)	(396,807)	11,233
Other expenditures	-	(43,500)	(43,335)	165
TOTAL OTHER FINANCING SOURCES (USES)	712,000	524,452	574,278	49,826
NET CHANGE IN FUND BALANCE	(75,888)	(974)	497,851	498,825
Fund balance, beginning of year	1,909,781	1,909,781	1,909,781	-0-
Fund balance, end of year	<u>\$ 1,833,893</u>	<u>\$ 1,908,807</u>	<u>\$ 2,407,632</u>	<u>\$ 498,825</u>

OTHER SUPPLEMENTARY INFORMATION

St. Johns Public Schools

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2008

	Special Revenue		Debt	
	Food Service	Athletics	1995 Debt	1998 Refunding Bonds
ASSETS				
Cash	\$ 528,208	\$ 29,634	\$ 165,891	\$ 535,238
Investments	-	-	-	-
Accounts receivable	-	-	-	20
Due from other funds	-	-	211	194
Inventories	16,007	-	-	-
TOTAL ASSETS	\$ 544,215	\$ 29,634	\$ 166,102	\$ 535,452
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 5	\$ -	\$ -	\$ -
Accrued payroll	14,130	290	-	-
Other accrued liabilities	3,984	71	-	-
Due to other funds	215,181	-	109,384	47,005
Deferred revenue	12,779	20	-	-
TOTAL LIABILITIES	246,079	381	109,384	47,005
FUND BALANCES				
Reserved for				
Inventories	16,007	-	-	-
Debt service	-	-	56,718	488,447
Unreserved				
Designated for:				
Subsequent year's expenditures	27,700	-	-	-
Undesignated, reported in:				
Special Revenue Funds	254,429	29,253	-	-
Capital Project Funds	-	-	-	-
TOTAL FUND BALANCES	298,136	29,253	56,718	488,447
TOTAL LIABILITIES AND FUND BALANCES	\$ 544,215	\$ 29,634	\$ 166,102	\$ 535,452

2003 Energy Conservation Bonds	Service		Capital Projects	Total Nonmajor Governmental Funds
	2004 Refunding Bonds	2008 Refunding Bonds	Improvement Projects	
\$ -	\$ 83,443	\$ 191,242	\$ 10,202	\$ 1,543,858
-	-	-	483,861	483,861
-	-	-	-	20
-	1,536	108,815	-	110,756
-	-	-	-	16,007
<u>\$ -0-</u>	<u>\$ 84,979</u>	<u>\$ 300,057</u>	<u>\$ 494,063</u>	<u>\$ 2,154,502</u>
\$ -	\$ -	\$ -	\$ -	\$ 5
-	-	-	-	14,420
-	-	-	-	4,055
-	869	-	-	372,439
-	-	-	-	12,799
-0-	869	-0-	-0-	403,718
-	-	-	-	16,007
-	84,110	300,057	-	929,332
-	-	-	-	27,700
-	-	-	-	283,682
-	-	-	494,063	494,063
<u>-0-</u>	<u>84,110</u>	<u>300,057</u>	<u>494,063</u>	<u>1,750,784</u>
<u>\$ -0-</u>	<u>\$ 84,979</u>	<u>\$ 300,057</u>	<u>\$ 494,063</u>	<u>\$ 2,154,502</u>

St. Johns Public Schools

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	Special Revenue		Debt	
	Food Service	Athletics	1995 Debt	1998 Refunding Bonds
REVENUES				
Local sources	\$ 803,354	\$ 192,608	\$ 2,043,345	\$ 1,976,270
State sources	55,755	-	-	-
Federal sources	344,850	-	-	-
TOTAL REVENUES	1,203,959	192,608	2,043,345	1,976,270
EXPENDITURES				
Current				
Food service activities	1,269,314	-	-	-
Athletic activities	-	425,392	-	-
Debt service				
Principal retirement	-	-	1,873,430	748,076
Interest, fiscal and other charges	-	-	142,044	1,075,136
TOTAL EXPENDITURES	1,269,314	425,392	2,015,474	1,823,212
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(65,355)	(232,784)	27,871	153,058
OTHER FINANCING SOURCES (USES)				
Bond proceeds	-	-	-	13,780,000
Bond premium	-	-	-	802,508
Transfers from other funds	-	248,367	-	400,000
Payment to escrow agent	-	-	-	(14,395,310)
Bond issuance costs	-	-	-	(187,198)
Transfer to other funds	-	-	(400,000)	(300,000)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	248,367	(400,000)	100,000
NET CHANGE IN FUND BALANCES	(65,355)	15,583	(372,129)	253,058
Fund balances, beginning of year	363,491	13,670	428,847	235,389
Fund balances, end of year	<u>\$ 298,136</u>	<u>\$ 29,253</u>	<u>\$ 56,718</u>	<u>\$ 488,447</u>

	Service		Capital Projects		
2003 Energy Conservation Bonds	2004 Refunding Bonds	2008 Refunding Bonds	Improvement Projects	Total Nonmajor Governmental Funds	
\$ -	\$ 267,800	\$ 108,872	\$ 20,992	\$ 5,413,241	
-	-	-	-	55,755	
-	-	-	-	344,850	
-0-	267,800	108,872	20,992	5,813,846	
-	-	-	-	1,269,314	
-	-	-	-	425,392	
120,000	210,673	-	-	2,952,179	
28,440	140,009	108,815	-	1,494,444	
148,440	350,682	108,815	-0-	6,141,329	
(148,440)	(82,882)	57	20,992	(327,483)	
-	-	-	-	13,780,000	
-	-	-	-	802,508	
148,440	-	300,000	-	1,096,807	
-	-	-	-	(14,395,310)	
-	-	-	-	(187,198)	
-	-	-	-	(700,000)	
148,440	-0-	300,000	-0-	396,807	
-0-	(82,882)	300,057	20,992	69,324	
-	166,992	-	473,071	1,681,460	
\$ -0-	\$ 84,110	\$ 300,057	\$ 494,063	\$ 1,750,784	

St. Johns Public Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Scholarships	Grants	Total
ASSETS			
Cash and cash equivalents	\$ 16,899	\$ 14,945	\$ 31,844
Investments	96,080	-	96,080
TOTAL ASSETS	112,979	14,945	127,924
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	-	980	980
Deferred revenue	32,134	-	32,134
TOTAL LIABILITIES	32,134	980	33,114
NET ASSETS			
Held in trust for scholarships	80,845	-	80,845
Held in trust for grants	-	13,965	13,965
TOTAL NET ASSETS	\$ 80,845	\$ 13,965	\$ 94,810

St. Johns Public Schools

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2008

	Scholarships	Grants	Total
ADDITIONS			
Investment earnings			
Interest	\$ 3,682	\$ -	\$ 3,682
Contributions	61,647	5,563	67,210
Total additions	65,329	5,563	70,892
DEDUCTIONS			
Other supporting services	49,860	5,698	55,558
CHANGE IN NET ASSETS	15,469	(135)	15,334
Net assets - beginning of year	65,376	14,100	79,476
Net assets - end of year	<u>\$ 80,845</u>	<u>\$ 13,965</u>	<u>\$ 94,810</u>

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education
St. Johns Public Schools
St. Johns, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of and for the year ended June 30, 2008, which collectively comprise St. Johns Public Schools' basic financial statements, and have issued our report thereon dated September 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the St. Johns Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described below.

2007-2 THE USE OF THE DISTRICT'S NAME AND/OR EMPLOYER IDENTIFICATION NUMBER BY OTHER ENTITIES

Condition: During the course of our audit, we noted that several organizations/entities independent of the District (i.e., PTO, Junior Achievement, boosters, etc.) hold deposit accounts with local banks under the name and/or employer identification number of the District. This issue was noted and reported in our audit comments last year.

Criteria: The District should have under its control all accounts in its name and/or using its employer identification number.

Effect: The District is associated with certain bank accounts, yet the District does not include these accounts in the District's general ledger and does not reconcile and monitor these accounts. Ultimately, the District cannot establish internal controls over such assets.

Recommendation: We recommend the District contact the banks with which it does business and take the necessary steps to have the District's identifying information removed from all accounts not under the control of the District.

Corrective Action Response: The audit identified 5 bank accounts under the District's employer identification number that the District does not have control over. Of the 5 accounts: one was closed during the month of August; 2 are for an elementary school's PTO that is in the process of becoming a 501(c)3 organization, which will resolve the issue; and the District has sent notification to the remaining elementary PTO that is using the District's FID number on their 2 accounts. I anticipate they will have their own FID # by the end of the 2008 calendar year.

2008-1 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for the Food Service Special Revenue fund. A similar issue was noted and reported in our audit comments last year.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The District adopted the budgets at the total expenditure level. Having unfavorable budget variances as described above, the District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: I believe it is inevitable to have this occur on occasion if you are trying to be as accurate as you can so that the Board has the best information possible when making decisions. In this case the District underestimated both the Revenues and Expenditures with the net effect of having a slightly smaller fund balance than had been projected in the final budget amendment. The way to have ensured this would not have happened would have been to overestimate the expenditures to such an extreme so as to eliminate the possibility of ending in a deficit position. To me this is not the best solution and is not one I recommend.

St. Johns Public Schools' responses to the findings identified in our audit are described above. We did not audit St. Johns Public Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration and Board of Education of St. Johns Public Schools, others within the District, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 30, 2008

St. Johns Public Schools
SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)

June 30, 2008

St. Johns Public Schools

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
St. Johns Public Schools
St. Johns, Michigan

Compliance

We have audited the compliance of St. Johns Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. St. Johns Public Schools' major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of St. Johns Public Schools' management. Our responsibility is to express an opinion on St. Johns Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about St. Johns Public Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of St. Johns Public Schools' compliance with those requirements.

In our opinion, St. Johns Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of St. Johns Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered St. Johns Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of St. Johns Public Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects a district's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the district's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of and for the year ended June 30, 2007, and have issued our report thereon dated September 30, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise St. Johns Public Schools' basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management and the Board of Education of St. Johns Public Schools, others within the District, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 30, 2008

St. Johns Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2007 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2008 Accrued or (Deferred) Revenue
U.S. DEPARTMENT OF AGRICULTURE								
Passed Through State								
Department of Education								
School Breakfast Program	10.553 ⁽¹⁾							
2006-07		071970	\$ 28,625	\$ 25,556	\$ -	\$ 3,069	\$ 3,069	\$ -0-
2007-08		081970	29,408	-	-	29,408	29,408	-0-
			58,033	25,556	-0-	32,477	32,477	-0-
National School Lunch Program	10.555 ⁽¹⁾							
2006-07		071950, 071960	226,187	199,026	-	27,161	27,161	-0-
2007-08		081950, 081960	211,825	-	-	211,825	211,825	-0-
			438,012	199,026	-0-	238,986	238,986	-0-
Food Donation ⁽²⁾	10.550 ⁽²⁾							
Entitlement commodities								
2006-07		19140	57,646	49,720	-	7,926	7,926	-0-
2007-08		19140	61,852	-	-	61,852	61,852 ⁽³⁾	-0-
Bonus commodities		19140	3,609	-	-	3,609	3,609 ⁽³⁾	-0-
			123,107	49,720	-0-	73,387	73,387	-0-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			619,152	274,302	-0-	344,850	344,850	-0-
U.S. DEPARTMENT OF EDUCATION								
Passed Through State								
Department of Education								
E.S.E.A. Title I	84.010 ⁽⁴⁾							
2006-07 Carryover, Part A		071530	302,061	302,061	185,773	185,773	-	-0-
2007-08 Regular, Part A		081530	386,818	-	-	333,054	371,639	38,585
			688,879	302,061	185,773	518,827	371,639	38,585

St. Johns Public Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount	(Memo Only) Prior Years' Expenditures	Balance July 1, 2007 Accrued or (Deferred) Revenue	Cash Receipts In-Kind Payments	Expenditures	Balance June 30, 2008 Accrued or (Deferred) Revenue
U.S. DEPARTMENT OF EDUCATION - CONTINUED								
Title I Program for Neglected and Delinquent Children 2006-07	84.013	061700	\$ 56,693	\$ 54,780	\$ 31,835	\$ 31,835	\$ -	\$ -0-
Title V 2007-08 Regular, Part A	84.298	080250	726	-	-	726	726	-0-
Education Technology State Grants	84.318							
2005-06 Carryover		064290	4,542	4,542	784	784	-	-0-
2006-07 Carryover		074290	3,472	690	690	690	-	-0-
2007-08 Regular		084290	4,649	-	-	4,649	1,318	(3,331)
			12,663	5,232	1,474	6,123	1,318	(3,331)
Improving Teacher Quality	84.367							
2006-07 Regular		07520	131,687	131,687	47,017	47,017	-	-0-
2007-08 Regular		08520	92,988	-	-	92,988	73,719	(19,269)
			224,675	131,687	47,017	140,005	73,719	(19,269)
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>983,636</u>	<u>493,760</u>	<u>266,099</u>	<u>697,516</u>	<u>447,402</u>	<u>15,985</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,602,788</u>	<u>\$ 768,082</u>	<u>\$ 266,099</u>	<u>\$ 1,042,366</u>	<u>\$ 792,252</u>	<u>\$ 15,985</u>
					(d)	(e)		

St. Johns Public Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of June 30, 2008, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the cumulative payment amounts in the Grants Section Auditors Report and the "paid during date range" amounts on the Grant Auditor Report combined, less the receipt adjustments for grants that overlapped from prior years as follows:

<u>Grant #</u>	<u>Payment Amounts Per Reports</u>	<u>Less: Prior Year Receipts</u>	<u>Cash Receipts Per Current SEFA</u>
0502500405	\$ 7,275	\$(7,275)	\$ -0-
0542900405	9,809	(9,809)	-0-

- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Agrees to total revenues from Federal sources per financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education
St. Johns Public Schools
St. Johns, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Johns Public Schools as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Johns Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to errors or fraud may occur and not be detected by such controls.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2007-2 and 2008-1.

The District's responses to the findings identified in our audit are described above. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the administration and the Board of Education of St. Johns Public Schools, others within the District, the pass-through grantors, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 30, 2008

St. Johns Public Schools

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies
10.550	Food Donation

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

2007-2 THE USE OF THE DISTRICT'S NAME AND/OR EMPLOYER IDENTIFICATION NUMBER BY OTHER ENTITIES

Condition: During the course of our audit, we noted that several organizations/entities independent of the District (i.e., PTO, Junior Achievement, boosters, etc.) hold deposit accounts with local banks under the name and/or employer identification number of the District. This issue was noted and reported in our audit comments last year.

Criteria: The District should have under its control all accounts in its name and/or using its employer identification number.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2008

Section II - Financial Statement Findings - Continued

2007-2 THE USE OF THE DISTRICT'S NAME AND/OR EMPLOYER IDENTIFICATION NUMBER BY OTHER ENTITIES - CONTINUED

Effect: The District is associated with certain bank accounts, yet the District does not include these accounts in the District's general ledger and does not reconcile and monitor these accounts. Ultimately, the District cannot establish internal controls over such assets.

Recommendation: We recommend the District contact the banks with which it does business and take the necessary steps to have the District's identifying information removed from all accounts not under the control of the District.

Corrective Action Response: The audit identified 5 bank accounts under the District's employer identification number that the District does not have control over. Of the 5 accounts: one was closed during the month of August; 2 are for an elementary school's PTO that is in the process of becoming a 501(c)3 organization, which will resolve the issue, and the District has sent notification to the remaining elementary PTO that is using the District's FID number on their 2 accounts. I anticipate they will have their own FID # by the end of the 2008 calendar year.

2008-1 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for the Food Service Special Revenue fund. A similar issue was noted and reported in our audit comments last year.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The District adopted the budgets at the total expenditure level. Having unfavorable budget variances as described above, the District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: I believe it is inevitable to have this occur on occasion if you are trying to be as accurate as you can so that the Board has the best information possible when making decisions. In this case the District underestimated both the Revenues and Expenditures with the net effect of having a slightly smaller fund balance than had been projected in the final budget amendment. The way to have ensured this would not have happened would have been to overestimate the expenditures to such an extreme so as to eliminate the possibility of ending in a deficit position. To me this is not the best solution and is not one I recommend.

Section III - Federal Award Findings and Questioned Costs

None

St. Johns Public Schools

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2008

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the adjustment of lease proceeds and capital outlay were proposed by the auditors. These misstatements were not detected by the District's internal control over financial reporting.

Resolution: This issue was not noted during the current audit. We consider this issue resolved.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2007-2 THE USE OF THE DISTRICT'S NAME AND/OR EMPLOYER IDENTIFICATION NUMBER BY OTHER ENTITIES

Condition: During the course of our audit, we noted that several organizations/entities independent of the District (i.e., PTO, Junior Achievement, boosters, etc.) hold deposit accounts with local banks under the name and/or employer identification number of the District. This issue was noted and reported in our audit comments last year.

Resolution: This issue was noted during the current audit and repeated in the Schedule of Findings and Questioned Costs. We do not consider this issue resolved.

2007-3 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for the Athletic and Food Service Special Revenue funds.

Resolution: A similar issue was noted during the current audit and is included in the Schedule of Findings and Questioned Costs.

2007-4 THE DISTRICT SHOULD ESCHEAT UNCLAIMED PROPERTY TO THE STATE OF MICHIGAN

Condition: During our audit, it was noted that the District had outstanding checks listed on their bank reconciliations that were over two (2) year old. This issue was noted and reported in our audit comments last year.

Resolution: This issue was not noted during the current audit. We consider this issue resolved.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.